International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume 5 Issue 4, May-June 2021 Available Online: www.ijtsrd.com e-ISSN: 2456 – 6470

# Effect of Voluntary Disclosure on Corporate Performance of Quoted Manufacturing Companies in Nigeria

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**ABSTRACT**

The objective of the study is to examine the effect of voluntary disclosure on corporate performance of quoted manufacturing companies in Nigeria. The study specifically examined the effect of voluntary disclosure on ROA, ROE, and NPM. The population of the study was drawn from manufacturing firms quoted on the floor of the Nigerian Stock Exchange. financial year. The study was based on secondary sources of data, collected from annual financial reports. The study used content analysis to analyse the voluntary disclosure items. The study finds that voluntary disclosure has a significant negative effect on profitability (return on assets, return on equity and net profit margin). The study therefore recommends, among others, manufacturing firms to enhance voluntary disclosure based on a cost/benefit analysis of such, and also, help "bridge the gap" between financial numbers and the true economics underlying the company's transaction. Voluntary disclosure is also recommended as a medium to curtail the shenanigans of earnings management.

***KEYWORDS:*** *Voluntary disclosure, ROA, ROE, and NPM*

***How to cite this paper****:* Ikemefuna, Victor C. | Onuora, J. K. "Effect of Voluntary Disclosure on Corporate Performance of Quoted Manufacturing Companies in Nigeria" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-5 | Issue-4, June 2021, pp.1308-1314, URL: www.ijtsrd.com/papers/ijtsrd42600.pdf

**IJTSRD42600**



## INTRODUCTION

Annual reports are the end product of the accounting process, aimed at providing qualitative and quantitative information on the performance of an organisation to enable users makes informed decisions (Ilaboya, 2008). It provides information on the income and expenses of a company in a fiscal year captured in the statement of comprehensive income and details of assets and liabilities owed shown in the statement of financial position. In addition, it also provides other relevant information contained in the statement of value added, changes in equity if any and statement of cash flows of the firm within a defined period of time to which it relates (Krstić & Đorđević, 2010; Iyoha & Faboyede, 2011). Annual reports act as a channel of communication from the directors to shareholders; and, are thus important corporate governance tool for evaluation and accountability of the board of directors (Okike, Adegbite, Nakpodia, & Adegbite, 2015).

The preparation of financial statements is guided by standards. Previously, In Nigeria, the Statement of Accounting Standards (SASs) was the primary standard(s) in use before the adoption of the new global standards International Financial Reporting Standards (IFRS). IFRS includes standards, interpretations and framework which are continuously evolving, and affects financial statements in four conceptual areas, namely; presentation, disclosure, recognition and measurement (Edogbanya & Kamardin, 2014).

Corporate disclosure has received considerable attention from stakeholders (Hassan & Marston, 2010). This followed a wide public outcry following several corporate scandals (Mugo, 2014; Wangari, 2014). Such as; Enron in 2001, WorldCom in 2002, Tyco in 2002, HealthSouth in 2003, Freddie Mac in 2003, American Insurance in 2005, Lenman Brothers in 2008, Saytam in 2009, Banco Espirito Santo (BES) in 2014, Toshiba and Turing Pharmaceutical in 2015 on the global scene, with Intercontinental Bank, AfriBank, African Petroleum, and Cadbury, among others locally. These scandals were attributed to the concealment of vital information (Modugu & Eboigbe, 2017). Lack of full disclosure left shareholders at risk of manipulated earnings (Musyoka, 2017). Thus, one of the determinants that led to the emergence of voluntary disclosure was the inadequacy of financial reporting, as perceived by investors and shareholders (Boesso & Kumar, 2007).

Extant studies have been conducted in other countries on disclosure patterns and corporate performance. For instance, in France Hamrouni, Miloudi, and Benkraiem (2015) reported a direct significant relationship between disclosure indexes and performances; in Jordan Alhazaimeh, Palaniappan, and Almsafir (2014) showed a positive effect of voluntary disclosure on market capitalization. The literature in the west focuses more on voluntary disclosures while in emerging economies of the world even the mandatory disclosures are a challenge (Sahore & Verma, 2017).

The main objective of the study is to examine the effect of voluntary disclosure on corporate performance of quoted manufacturing companies in Nigeria. The specific objectives of the study are as follows:

1. To determine the effect of voluntary disclosure on return on assets of quoted manufacturing companies.
2. To ascertain the effect of voluntary disclosure on return on equity of quoted manufacturing companies.
3. To examine the effect of voluntary disclosure on net profit margin of quoted manufacturing companies.

**Conceptual Framework**

**Concept of Voluntary Disclosure**

Disclosure is defined as the fair presentation of an entity's financial or non-financial, mandatory or voluntary information that is useful for stakeholders' decision making (Modugu & Eboigbe, 2017). Disclosure is defined in the accounting literature as "informing the public by financial statements of the firm" (Ağca & Önder, 2007), or as "the communication of economic information, whether financial or nonfinancial, quantitative or otherwise concerning a company's financial position and performance" (Owusu-Ansah, 1998). According to Lee (2012) disclosure refers to an accurate and timely release of information about the business strategy, financial performance and corporate governance to the general public by a company. It implies the presentation of a minimum amount of information in corporate reports, sufficient to permit a reasonable evaluation of the relative merits and risks of listed securities (Belkaoui, 1985). Gibbins, Richardson, and Waterhouse (1990) define disclosure as "any deliberate release of financial information, whether numerical or qualitative, required or voluntary, via formal or informal channels". Thus, it is the publication of any type of information through the corporate annual reports that are necessary, relevant and material to the various user groups in making their judgements and decisions about a company. For the information to be useful, it must be relevant and faithfully represent that which it purports to represent. In addition, the information is enhanced by the qualities of comparability, verifiability and understandability (Modugu & Eboigbe, 2017).

**Corporate Performance**

Corporate performance can be divided into financial and non-financial performance. According to Eshna (2016) financial performance refers to the "degree which financial objectives are met", that is assessing a firm's policies and operations in monetary terms. Financial performance is concerned with the financial health of a company and is normally used to compare firms from one industry to the other (Musyoka, 2017). Financial performance is usually measured using financial ratios. Financial measures are influenced by non-financial measures (Santos & Brito, 2012). According to Yegon (2015) the three most important decisions in a firm are: investment, financing and dividend decisions, and are all related to firm performance. Thus, investment in assets should offer a return, a good principle on financing should balance the debt and equity finances and a firm ought to provide some returns to shareholders as dividends (Yegon, 2015).

**Review of Empirical Studies**

Udeh and Ezejiofor (2018) determined the effect of sustainability cost accounting on financial performance of Nigerian telecommunication firms. Ex post fact research design and time series data were adopted. Formulated hypotheses were tested using regression analysis with the aid of SPSS Version 20.0. Based on this, the study found that Sustainability cost accounting has significantly affected return on assets of Nigerian telecommunication firms. Another finding is that sustainability cost accounting has significantly affected return on equity of Nigerian telecommunication firms. Bhuyan, Lodh, and Perera (2017) examined the influence of corporate social disclosure on firm performance in Bangladesh. The sample comprised top 200 firms listed on the Dhaka Stock Exchange, Bangladesh from 2011 to 2013. They used ordinary least square and two stage least square in analysing the data. The results showed a significant relationship between corporate social disclosure and ROA, market capitalization and Tobin's Q (for both the pooled and 2SLS). Mutiva, Ahmed, and Muiruri-Ndirangu (2017) investigated the relationship between voluntary disclosure and financial performance in Kenya. The sample comprised 10 listed companies from the NSE 20-share index from the year 2011 to 2013. The constructed a disclosure checklist consisting of 49 voluntarily disclosed items. They used multiple regression analysis on the data set. They found that there is a strong positive relationship between voluntary disclosure and financial performance, i.e., ROI. However, general corporate and strategic information and socio-environmental and board disclosures were negative. Musyoka (2017) examine the effect of voluntary disclosure on financial performance in Nairobi. The sample comprised forty-three firms listed on the Nairobi Securities Exchange from 2006 to 2015. Firm performance was proxied using Tobin's Q. The results revealed that financial policy disclosure, financial liquidity disclosure, research and development disclosure has a significant effect on firm performance. Investment policy disclosure and sales growth disclosure had no significant effect on firm performance. Modugu and Eboigbe (2017) investigated the determinants of corporate disclosure in Nigeria. The sample comprised 60 companies listed on the Nigerian Stock Exchange from various sectors. The study covered the post IFRSs adoption period from 2012 to 2014. Corporate disclosure (dependent variable) was disaggregated into mandatory, voluntary and total disclosure. They used ordinary least squares regression. The results revealed that the level of voluntary disclosure is low. Consoni and Colauto (2016) examined the effect of International Financial Reporting Standards (IFRS) adoption on voluntary disclosure in Brazil. The sample comprised 66 companies listed on the BM&F Bovespa from 2005 to 2012. They employed panel data regression with random effects to test the hypotheses. The results revealed that IFRS convergence as an exogenous factor, affected positively and significantly voluntary disclosure. Edogiawerie and David (2016) investigated the relationship between voluntary disclosure and corporate performance in Nigeria. The sample comprised fifty companies listed on the Nigerian Stock Exchange. They employed Ordinary Least Square (OLS) regression analysis to test the data. The results showed that there is a significant effect of return on capital employed, profit after tax, earnings per share and dividend per share and the level of voluntary disclosures. Achoki, Kule, and Shukla (2016) investigated the effect of voluntary disclosure on financial performance in Rwanda. The study adopted a descriptive research design. The sample comprised 14 commercial banks. They used secondary data from annual reports from 2011 to 2015. They used multiple linear regression to analyse the data. The results revealed a strong relationship between voluntary disclosure and ROE.

They specifically found a positive relationship between financial, forward looking and board and social disclosure and ROE. However, general & strategic disclosure was negative. Jullobol and Sartmool (2015) investigated the effect of firm performance on voluntary disclosure in Thailand. The sample comprised 34 technology companies listed on the Thailand Stock Exchange from 2009 to 2013. They used secondary data. They employ Random-effects Tobit Models. The results showed that both Return on Asset and Tobin's Q significantly affect voluntary disclosure. Okoye and Ezejiofor (2013) ascertained the extent Sustainability environmental accounting in enhancing corporate performance and economic growth. using Pearson Product Movement Correlation Co-efficient to tested the hypotheses, the study discovered that sustainable environmental accounting has significant impact on corporate productivity in order to enhance corporate growth. Naran (2013) investigated the effects of voluntary disclosure and financial performance in Kenya. The study adopted a descriptive research design. The sample comprised seventeen commercial banks in Kenya. The study used secondary data from annual reports and accounts from 2008 to 2011. The analyzed the data using multiple linear regression. The study found that financial disclosure, board disclosure and forward looking disclosure were positive; while, general and strategic disclosures are negative. Nekhili, Boubaker, and Lakhal (2012) investigated the association between ownership structure, voluntary disclosure and market value of firms in France. The sample comprised 84 firms listed in France from 2000 to 2004. The results revealed that R&D disclosure affected the market value of equity despite the higher proprietary costs associated with these disclosures.

The literature on this subject seems scanty in Nigeria, while, extant studies have been conducted in other countries on disclosure patterns and corporate performance. Studies have also been conducted in Nigeria; such as, Oluwagbemiga (2014) on voluntary disclosure and financial statement quality; Avwokeni (2016) on corporate social disclosure requirement of the United Nations; and Edogiawerie and David (2016) on the relationship between voluntary disclosure and corporate performance in Nigeria. These studies however present mixed findings on the subject or inconclusive results (Musyoka, 2017; Crawford, Lont, & Scott, 2014; Boesso & Kumar, 2007).

Another critique leveled against these studies has been the methodological approaches used. According to Musyoka (2017) the studies failed to recognize the data as panel, thereby methods of panel analysis were not undertaken. Therefore the present study seeks to tackle this issue employing an appropriate approach. The study also controls for the mandatory adoption of IFRS, which is a preferred phenomenon, as it is less subject to the endogeneity criticism, as adoption is performed at the country level and is beyond the choice of individual firms.

## Methodology

### Research Design

Research design is a guideline showing how the study objective will be attained (Kombo & Tromp, 2006).The study made use of the ex post facto research design.

The study made use of secondary sources of data. The secondary source of data were obtained from the annual financial reports and accounts of the individual companies downloaded from the websites of the companies; and, the use of the website, www.africanfinancials.com, an independent website that gathers annual financial information of companies listed in African countries.

### Population and Sample Size of the Study

A complete enumeration of all individuals under consideration is known as the target population (Kothari, 2011). The target population consisted of all quoted manufacturing firms on the Nigerian Stock Exchange (NSE) as at end of 2017 financial year. The target population consisted of 173 firms listed in NSE under the eleven sectors.

Sampling is the process of selecting a subset of the target population to be its true representative on the study (Mugenda & Mugenda, 2009). The study used the purposive sampling technique and selected the 66 firms included in the six sectors

**Table 1: Firms included in the sample for the study**

| S/No | Sector | Number of firms |
|---|---|---|
| 1 | Agriculture | 5 |
| 2 | Consumer Goods | 22 |
| 3 | Conglomerates | 6 |
| 4 | Health Care | 11 |
| 5 | ICT | 7 |
| 6 | Industrial Goods | 15 |
| | Total | 66 |

Source: The Nigerian Stock Exchange Website (2020)

### Methods of Data Analysis

The data analysis is composed of four steps: data preparation through cleaning, data analysis, interpretation and report writing. Microsoft Excel and E Views statistical software were used in analyzing the data.

### Panel Regression Model

The study employed a panel regression model, so as to consider both the time series and cross sectional properties of the data. The panel regression model has two options: Fixed Effects (FE) and Random Effects (RE) models. FE regression is a method that is especially useful in the context of causal inference (Gangl, 2010). While standard regression models provide biased estimates of causal effects if there are unobserved confounders, FE regression is a method that can (if certain assumptions are valid) provide unbiased estimates in this situation (Brüderl & Ludwig, 2015).

The FE estimation builds on the error components model,
$y_{it} = x_{it}\beta + \alpha_i + \varepsilon_{it}$ ……………………………………………(i)

Where, $y_{it}$ denotes the observed outcome of firm i at time t, $x_{it}$ is the ( 1×K) vector of covariates of this firm measured contemporaneously, and β is the corresponding (K × 1) vector of parameters to be estimated. The error term of this model is split into two components. The $\alpha_i$ is stable firm specific characteristics which are often unobserved, but also are very often related to the covariates. Hence, the αi are unobserved effects capturing time-constant firm heterogeneity. The second component $\varepsilon_{it}$ is an idiosyncratic error that varies across firms and over time. The intercept α that is standard in regression models is dropped, due to collinearity with the firm-specific errors αi.

### Model Specification

$ROA_{i,t} = \alpha + VolDis_{I,t} + IFRS\ Adop + Size_{i,t} + Leverage_{i,t} + \mu$…………………… (1)

$ROE_{i,t} = \alpha + VolDis_{I,t} + IFRS\ Adop + Size_{i,t} + Leverage_{i,t} + \mu$ …………………… (2)

$NPM_{i,t} = \alpha + VolDis_{I,t} + IFRS\ Adop + Size_{i,t} + Leverage_{i,t} + \mu$ …………………… (3)

The t statistic was evaluated at the .05 level of significance.

**Data Presentation and Analysis**

**Table 2: Descriptive statistics of dependent variables**

| | ROA | ROE | NPM |
|---|---|---|---|
| Mean | 0.574193723373750 | 0.221191962764148 | 0.82254784259681 |
| Median | 0.027822222393881 | 0.054055977387341 | 0.05921091692115 |
| Maximum | 110.9888750631329 | 16.50259811473483 | 42.7740494986004 |
| Minimum | -3.02176968753042 | -23.0224354642519 | -16.1565250669728 |
| Std. Dev. | 6.013402210823029 | 1.99270964762359 | 4.684736638199786 |
| Skewness | 15.37923053799613 | -3.47094522826622 | 6.314125498081964 |
| Kurtosis | 261.9006150408321 | 80.04743065917492 | 48.43167099759128 |
| Jarque-Bera | 1308530.519378476 | 115201.5559750991 | 42802.55696746823 |
| Probability | 0 | 0 | 0 |
| Sum | 265.2775001986729 | 102.1906867970368 | 380.0171032797273 |
| Sum Sq. Dev. | 16670.22383474952 | 1830.581092016513 | 10117.45514724335 |
| Observations | 462 | 462 | 462 |

Source: E-Views 9.0

**Test of Hypotheses**

This section presents the results of the Generalized Least Squares (cross section weights) methods.

**Test of Hypothesis One:**

$H_1$: There is no significant effect of voluntary disclosure on return on assets of quoted manufacturing companies.

The model showed an R squared value of .423 ($R^2$ measures the proportion of the variance in the dependent variable that is explained by the independent variables); and, Adjusted R squared value of 0.313; thus, the model explains approximately 31% variation in the dependent variable. The results are shown in the table below:

**Table 3: Regression results for hypothesis one**

| **Dependent Variable: ROA** | | | | |
|---|---|---|---|---|
| Method: Panel EGLS (Cross-section weights) | | | | |
| Cross-sections included: 66 | | | | |
| **Variable** | **Coefficient** | **Std. Error** | **t-Statistic** | **Prob.** |
| C | 0.241231 | 0.067129 | 3.593570 | 0.000368 |
| IFRS | 0.126661 | 0.069122 | 1.832428 | 0.067648 |
| VOL_DISC | -0.028788 | 0.011593 | -2.483206 | 0.013439 |
| FIRM_SIZE | -2.630593 | 1.556169 | -1.690429 | 0.091743 |
| LEVERAGE | -2.881928 | 7.967743 | -0.361699 | 0.717772 |
| **Weighted Statistics** | | | | |
| R-squared | | 0.422730 | | |
| Adjusted R-squared | | 0.312732 | | |
| F-statistic | | 2.273498 | | |
| Prob(F-statistic) | | 0.060781 | | |

Source: E-views Software Ver. 9.0

The F statistic (ratio of the mean regression sum of squares divided by the mean error sum of squares) which is used to check the statistical significance of the model showed a value of 2.27; p value <.10; therefore the hypothesis that all the regression coefficients are zero is rejected. However, the t statistic of our variable of interest (Vol_Disc) is -2.48 ($p$<.05), confirming that Vol_Disc has a negative and statistically significant relationship with ROA; thus, the alternate hypothesis is accepted and null rejected. Thus, there is a significant effect of voluntary disclosure on return on assets of quoted manufacturing companies.

**Test of Hypothesis Two:**

$H_1$: There is a significant effect of voluntary disclosure on return on equity of quoted manufacturing companies.

The model showed an R squared value of .572 ($R^2$ measures the proportion of the variance in the dependent variable that is explained by the independent variables); and, Adjusted R squared value of 0.562; thus, the model explains approximately 56% variation in the dependent variable. The results are shown in the table below:

**Table.4: Regression results for hypothesis two**

| **Dependent Variable: ROE** | | | | |
|---|---|---|---|---|
| Method: Panel EGLS (Cross-section weights) | | | | |
| Cross-sections included: 66 | | | | |
| **Variable** | **Coefficient** | **Std. Error** | **t-Statistic** | **Prob.** |
| C | 0.272139 | 0.042126 | 6.4601348 | 3.112556 |
| IFRS | 0.063424 | 0.044307 | 1.431459 | 0.153098 |
| VOL_DISC | -0.029484 | 0.007371 | -3.999795 | 7.582067 |
| FIRM_SIZE | 4.491595 | 1.210741 | 3.709790 | 0.000237 |
| LEVERAGE | -1.711195 | 5.105375 | -0.335175 | 0.737673 |
| **Weighted Statistics** | | | | |
| R-squared | | 0.572314 | | |
| Adjusted R-squared | | 0.562823 | | |
| F-statistic | | 7.619702 | | |
| Prob(F-statistic) | | 6.411339 | | |

Source: E-views Software Ver. 9.0

The F statistic (ratio of the mean regression sum of squares divided by the mean error sum of squares) which is used to check the statistical significance of the model showed a value of 7.62; p value <.05; therefore the hypothesis that all the regression coefficients are zero is rejected. However, the t statistic of our variable of interest (Vol_Disc) is -3.99 ($p$<.05), confirming that Vol_Disc has a negative and statistically significant relationship with ROE; thus, the alternate hypothesis is accepted and null rejected. Thus, there is a significant effect of voluntary disclosure on return on equity of quoted manufacturing companies.

**Test of Hypothesis Three:**

$H_1$: There is a significant effect of voluntary disclosure on net profit margin of quoted manufacturing companies.

The model showed an R squared value of .569 ($R^2$ measures the proportion of the variance in the dependent variable that is explained by the independent variables); and, Adjusted R squared value of 0.479; thus, the model explains approximately 48% variation in the dependent variable. The results are shown in the table below:

**Table 5: Regression results for hypothesis three**

| **Dependent Variable: NPM** | | | | |
|---|---|---|---|---|
| Method: Panel EGLS (Cross-section weights) | | | | |
| Cross-sections included: 66 | | | | |
| **Variable** | **Coefficient** | **Std. Error** | **t-Statistic** | **Prob.** |
| C | 0.265124 | 0.094182 | 2.815018 | 0.005124 |
| IFRS | 0.114175 | 0.097951 | 1.165640 | 0.244471 |
| VOL_DISC | -0.029844 | 0.016351 | -1.825189 | 0.068735 |
| FIRM_SIZE | 1.063666 | 2.982445 | 0.356642 | 0.721552 |
| LEVERAGE | -3.315214 | 9.219181 | -0.359600 | 0.719341 |
| **Weighted Statistics** | | | | |
| R-squared | | 0.569279 | | |
| Adjusted R-squared | | 0.478857 | | |
| F-statistic | | 4.915478 | | |
| Prob(F-statistic) | | 0.004826 | | |

Source: E-views Software Ver. 9.0

The F statistic (ratio of the mean regression sum of squares divided by the mean error sum of squares) which is used to check the statistical significance of the model showed a value of 4.92; p value <.05; therefore the hypothesis that all the regression coefficients are zero is rejected. However, the t statistic of our variable of interest (Vol_Disc) is -1.83 ($p$<.10), confirming that Vol_Disc has a negative and statistically significant relationship with NPM; thus, the alternate hypothesis is accepted and null rejected. Thus, there is a significant effect of voluntary disclosure on net profit margin of quoted manufacturing companies.

**Discussion of Findings**

The thrust of the current study is on examining the effect of voluntary disclosure on corporate performance of manufacturing firms. Generally, the study finds a strong positive relationship between voluntary disclosure and corporate performance, more specifically on profitability and liquidity. This is in line with Hamrouni, Miloudi, and Benkraiem (2015) in France; when they demonstrated that there is a direct and significant relationship between disclosure indexes and performances. Also, Musyoka (2017) in Nairobi; revealed that financial policy disclosure, financial liquidity disclosure, research and development disclosure had a significant positive relationship with firm performance.

The study found a significant effect of voluntary disclosure on return on assets. This is consistent with the study by Mutiva, Ahmed, and Muiruri-Ndirangu (2017) in Kenya; that found a strong positive relationship between voluntary disclosure and ROI. The transaction cost hypothesis, posits that profitable company are willing to present a good picture and disclose more inform of voluntary disclosures, this is consistent with studies of Murcia and Santos (2010), Al-Akra and Ali (2012) and Chen, Tan, Cheng, and Gong (2013).

The study found a significant negative effect of voluntary disclosure on return on equity. The study by Wangari (2014) in Kenya; revealed a negative relationship between general & strategic disclosure and return on equity. Contrary to this,

Achoki, Kule, and Shukla (2016) in Rwanda found a positive relationship between financial, forward looking and board and social disclosure and ROE. And, Wangari (2014) in Kenya; also revealed a positive relationship between financial, forward looking and board and social disclosure and return on equity.

**Conclusion and Recommendations**

The study was undertaken to examine the effect of voluntary disclosure on corporate performance of quoted manufacturing companies in Nigeria. The Federal Government of Nigeria via its Federal Executive Council (FEC) in 2010 accepted the recommendations of the Committee on the Roadmap to the Adoption of International Financial Reporting Standards (IFRS) in Nigeria that it will be in the interest of the Nigerian economy for reporting entities in Nigeria to adopt IFRS. However, the literature on voluntary disclosure still remains scanty. This therefore becomes the focal point of the present study.

The study makes the following recommendations:

1. Voluntary disclosure on financial disclosure is encouraged to the extent that it does not affect the financial performance of the firm. The negative relationship may be attributed to the disclosure of irrelevant information which can obscure relevant information. For instance, while a detailed description of ROA and ROE is good; such compares little when compared with industry average or average over time. Entities can use other communication mediums; such as, press releases, shareholder presentations, etc., that are not defined or specified in IFRS, to present other necessary information. This should however, be based on a cost/benefit analysis, as such may add unnecessary costs in the preparation of financial statements.

2. The positive effect of voluntary disclosure on liquidity is premised on the link between disclosure, transparency and stock returns. Such information both implicitly and explicitly explains managerial action as regards stewardship and opportunism. Areas such as liquidity and capital resources, off-balance sheet arrangements, and significant contractual obligations, including firm commitments, etc. would help “bridge the gap” between what financial statement numbers, based on generally accepted accounting principles (GAAP), indicate about a company’s economic performance and the true economics underlying the company’s transactions (Glassman, 2003).

3. Voluntary disclosure can also present an avenue for auditors to critically examine the state of affairs of the firm; by regarding annual reports and accounts as more than compliance documents. It enables auditors to assess certain risks, such as a company’s exposure to financial risks and contingent liabilities, the potential for debt covenant violations, difficulty with liquidity issues, and other problems relevant to a company’s ability to continue as a going concern (Guo, Fink, & Frank, 2009).

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